INNAMINCKA
PETROLEUM

ANNUAL REPORT

PERMIT YEAR 2

30 July 2004 TO 29 October 2005

PEL 101

COOPER BASIN
SOUTH AUSTRALIA

INNAMINCKA PETROLEUM LIMITED

PERMIT YEAR 2

PEL 101 ANNUAL REPORT

CONTENTS

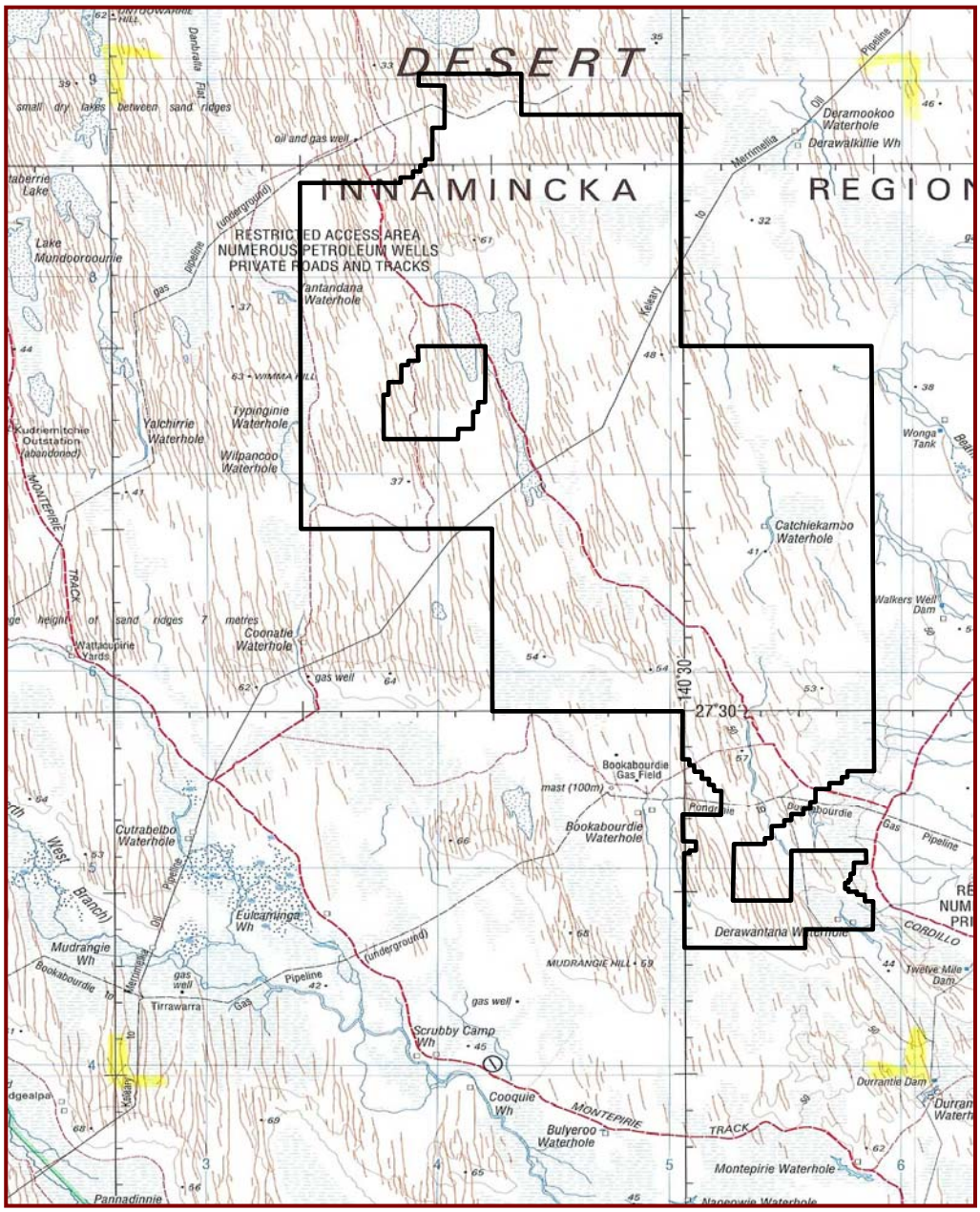
LIST OF APPENDICES

NO.	CONTENTS
1	INP Compliance Record with activity SEO(s) Statement of Environmental Objectives for Drilling and Well Operations in the Cooper / Eromanga Basin – South Australia (August 2000)
2	Summary Expenditure Report (to 29 October 2005 – Permit Year 2) **(Note: This Report is to be removed for the website posted copy)**

1 Introduction

Petroleum Exploration Licence (PEL) 101 was granted on 30 January 2003. The permit is situated in the central Cooper Basin, near the SA / Queensland border.

This report details the work conducted during the **Permit Year 2** of the licence, in accordance with the requirements of Section 33 of the Petroleum Regulations 2000.



Permit Location – 1:250,000 Topographic Sheet (SG54-15)

2 Permit Summary

At the time of award of the permit (January 2003), the sole working interest was held by:

Vernon E Faulconer Australia Inc. ("VFI"): 100%

The permit was awarded with the following work commitments:

PERMIT YEAR	WORK PROGRAMME
Year 1	2 wells, reprocessing, geochemical survey
Year 2	2 wells, 50 km 2D seismic acquisition
Year 3	2 wells
Year 4	2 wells, 40 km seismic
Year 5	1 wells

Innamincka Petroleum Limited ("INP") entered into a Farmin Agreement ("Agreement") with the Licensee, VFI, dated 17 September 2004. This agreement provided for INP earning 50% interest in PEL 101 (and 35% interest in PEL 103) and being the Operator for the farmin and all subsequent joint venture work programs.

Due to delays in finalizing the Farmin Agreement, INP approached PIRSA in November 2003 seeking a variation to the work programme (as listed above) for PEL 101. Formal application was sought in correspondence sent to PIRSA on 7 January for a 6 month suspension of the Permit. On 15 January 2004, PIRSA approved a 6 month suspension to PEL 101 with a revised permit anniversary date of 29 July 2004 with the 5 year term expiring on 29 July 2008.

It became apparent in April 2004 that due to fulfillment of the commitments in PEL 103 and rig availability issues, that the work programme (to drill 2 wells by the new permit anniversary date of 29 July 2004) would not be completed in time. Consequently a further variation was sought to effectively combine the work programme for Years 1 & 2. This variation was reviewed and accepted by PIRSA on 22 April 2004 with the new work programme as follows:

PERMIT YEAR	WORK PROGRAMME
Year 1 & 2	**2 wells,** 100 km 2D seismic acquisition
Year 3	2 wells
Year 4	2 wells
Year 5	3 wells

Due to fulfillment of the commitments in PEL 103 plus rig and the seismic crew availability issues, the drilling of the remaining work commitment well for PEL 101, Ginko 1, and the

acquisition of the Kapok 2D Seismic Program could not be completed by the new anniversary date of 29 July, 2005. Consequently a further variation was sought to put the permit back into suspension. Formal application was sought in correspondence sent to PIRSA on 22 June 2005 for a 3 month suspension of the Permit. This variation was reviewed and accepted by PIRSA on 22 June 2005 and the permit was put in suspension with effect from 1 June until 31 August 2005. Under the Petroleum Act 2000, no regulated activities are permitted in respect of the licence during the suspension period. As a result, year 2 of the licence term was now designated to end on 29 October, 2005.

The suspension was temporarily lifted on 14 July 2005 to allow for site preparations for the drilling of the Ginko 1 well and access for the Kapok 2D Seismic Survey. The suspension was resumed on 5 September, 2005 and ended on 23 October 2005.

Due to the uneconomic nature of gas sales contracts currently offered in the Cooper Basin, a request was made to vary the work program in Permit Year 3 to require the drilling of only one exploration well. This variation was reviewed and accepted by PIRSA on 31 October, 2005 with the new work program as follows:

PERMIT YEAR	WORK PROGRAMME
Year 1 & 2	**2 wells,** 100 km 2D seismic acquisition (completed)
Year 3	1 wells
Year 4	3 wells
Year 5	3 wells

As at 29 October 2005 (end of Permit Year 2), PEL 101 remains in good standing with the requirement to undertake the drilling of 1 exploration well by 29 October 2006.

On 5 July 2005, PIRSA approved the farmout of 25% equity in PEL 101 to MidContinent Equipment (Australia) Pty Ltd. At the end of Permit Year 2 the working interests in PEL 101 are as follows:

COMPANY	% W.I.
Vernon E Faulconer Australia Inc.	37.5
Innamincka Petroleum Limited	37.5
Mid Continent Equipment (Australia) Pty Ltd	25.0

3 Exploration Activity

3.1 Drilling (and related activities)

Two exploration wells were drilled in the permit during Year 2.

1. **Crocus 1**, an **exploration** well located to test the updip culmination of the previously drilled Wimma 1 well. Approximately 30 m of updip potential was recognised (as confirmed by the well result). Significant gas sands were encountered during drilling in the Toolachee, Epsilon and upper Patchawarra Formations as indicated by mudlog shows. Due to severe coal caving and resultant hole instability, the well was unable to be tested with open hole DSTs, and wireline logs were unable to pass below 3134 m (TD 3348.5 m). On the basis of the quality of gas shows observed, the well was cased with 178 mm (7") production casing to 3140.5 m and suspended pending later re-entry to complete the well as a Permian gas producer.

2. **Ginko 1**, an **exploration** well located halfway between the Coonatie gas field to the south and Lamdina 1 to the north, discovered gas in the Toolachee, Epsilon and Patchawarra Formations. The well was subsequently cased and suspended in August 2005.

3.2 Seismic Data Acquisition

A total of 101 km of 2D seismic was recorded within PEL 101 between August and September (Kapok Seismic Survey).

3.3 Seismic Data Processing and Reprocessing

The newly acquired data were processed by Velseis (Brisbane). No reprocessing was undertaken.

3.4 Geochemical Survey

No geochemical surveys were undertaken.

4 Compliance Issues

4.1 License and Regulatory Compliance

As required, INP maintains a register of non-compliance issues and the following table summarises those matter of non-compliance for Permit Year 2.

License Non-Compliance

No.	Stated Commitment	Reason for Non-Compliance	Rectification of Non-Compliance
1	• No Licence compliance issues to report	• NA	• NA

Regulatory Non-Compliance (& Formal Warnings):

- 2000 SA Petroleum Regulations/Act
- Approved SEOs under the Act/Regulations
- Approved activity EIRs/EARs/ERCs

No.	Date	Activity	Non-Compliance Description	Rectification of Non-Compliance
1	17/07/05	Ginko 1	• Transportation of a multi-trailer configuration on the rig move from Flax 2 (PEL-103) to Ginko 1 (PEL-101) in contravention of Cooper Basin transport industry policy.	• Contractor advised of non-compliance and presented with copy of the incident report. • Cautioned and advised of potential for contract termination if a further breach should occur.

4.2 Management Systems Audits

4.2.1 Drilling Activities

No Management System Audits were carried out during the year.

Environmental audits by Tim Fatchen (INP Environmental Consultant) were conducted on a periodic basis throughout the Permit Year and coincided with his field visits. No breaches were identified in any activity carried out during the year.

The Ginko 1 location will be used and modified for future production activities, whilst the Crocus 1 locations will be kept pending future well re-entry. If these wells are ultimately

abandoned, then audits against the EIR/SEO will be undertaken once the final restoration is completed.

As stipulated in the initial 2004 Drilling Programme submission, audits against the compliance register (2000 Petroleum Regulations and Act and SEO/EIR) were undertaken prior to the commencement of drilling each well. No major issues were identified as part of these audit and routine regulatory compliance checks.

4.2.2 Seismic Activities

An Environmental Audit Report of the Kapok 2D Seismic Survey lines (101 km) was conducted by Bruce Beer (INP Seismic Birddog) in September 2005. No issues were identified in the audit, and Environmental Monitoring Points were established for ongoing environmental auditing.

4.3 Data Submissions

The following data was submitted to PIRSA during the permit year:

No.	Document / Report Description	Date Submitted
Notice of Entry Documents:		
1	PEL 101 – 2005 Notice of Entry & Activity Advice	02/03/05
Well Proposal Documents:		
1	Ginko 1 – Well Application to Drill (Part 1)	22/03/05
2	Ginko 1 – Well Application to Drill (Part 2)	14/07/05
Drilling Reports:		
1	Daily Reports for Crocus 1 inclusive of;	
	Daily Drilling Reports	27/07/04 – 02/09/04
	Daily Geological Reports	03/08/04 – 24/08/04
	LOPT/FIT Report	04/08/04
	Blowout Preventer Test Report	04/08/04
	$9^5/_8$" Surface Casing and Cementing Report	04/08/04
	7" Surface Casing and Cementing Report	02/09/04
2	Daily Reports for Ginko 1 inclusive of;	
	Daily Drilling Reports	18/07/05 – 22/08/05
	Daily Geological Reports	26/07/05 – 17/08/05
	LOPT/FIT Report	27/07/05
	Blowout Preventer Test Report	27/07/05 & 06/08/05
	$9^5/_8$" Surface Casing and Cementing Report	26/07/05
	7" Surface Casing and Cementing Report	21/08/05
Wireline Logs:		
1	Crocus 1 - Wireline Logs (Final Copy)	04/10/04
2	Ginko 1 - Wireline Logs (Final Copy)	14/09/05

Well Completion Reports:		
1	Crocus 1 - Well Completion Report	07/03/05
Engineering Reports:		
1	No Reports Submitted	
Seismic Reports:		
1	Kapok 2D Seismic Survey Application (Part 1)	09/05/05
1	Kapok 2D Seismic Survey Application (Part 2)	15/08/05
Other Reports/Documents:		
1	PEL 101 Annual Report – Permit Year 1	01/10/04
2	INP Rig Fitness for Purpose Report	22/11/04

4.4 Safety

During the permit year, the following safety incidents were recorded and duly reported through the ODE HSE system:

No.	Date	Activity	Type*	Incident Description
1	31/08/04	Drilling Crocus 1	MTI	• ODE Rig 30 Floorrman received a crushing injury to the top of left hand middle finger. During 7" casing operations. • Operations were stopped in order that a full investigation could be made. • Injured received first aid treatment and resumed work.

* LTI-Lost Time Incident MTI-Medical Treatment Incident ADI-Alternative Duties Incident

4.5 Threat Prevention

No threats were identified or reported on during the year.

4.6 Future Work Program

Proposed activities for Permit Year 3 of the licence include:

- Drill one (1) exploration well (nominally Kapok 1 after interpretation of the new seismic data).

5 Expenditure Statement

A Summary of Expenditure to October 29 2005 has been included in Appendix 2. **This financial statement is "Commercial in Confidence" and to be removed from the website copy of this report.**

APPENDIX 1

INP COMPLIANCE RECORD WITH ACTIVITY SEO(s)

For

PERMIT YEAR 2

TABLE 1

INP COMPLIANCE AGAINST SEO(s) OBJECTIVES

Note: All Activities undertaken during the permit year (Permit Year 2) and reported on in this Annual Report, relate to activity specific and approved SEOs (generically the same in regards to the Environmental Objectives as listed below).

APPENDIX 1: INP COMPLIANCE AGAINST SEO(s) OBJECTIVES			
Environmental objective	**Possible impact**	**Identified Main sources of risk**	**Avoidance, management, mitigation & Compliance Statement**
1. Avoid disturbance to sites of Aboriginal and non-indigenous heritage significance	Intrusion or physical site damage to areas of Aboriginal and non-indigenous heritage significance	Access and pad construction, vehicle and people movement	Heritage survey (indigenous and non indigenous) to be conducted to clear proposed campsite, wellsite and access areas. Control of vehicle and personnel movement off pad.
			Compliance Statement: All sites of cultural significance (indigenous & non-indigenous) were identified as part of the site clearance operations for all construction activities (Crocus/Ginko wellsites & Kapok 2D lines) by conducting a Cultural Heritage Clearance Survey, and the areas identified used to adjust access and pad construction. As part of personnel induction, the importance of respecting areas of cultural significance was stressed (both indigenous & non indigenous). Furthermore, specific activities involving vehicle and personnel movements away from cleared areas were forbidden. ***INP, to its knowledge, believes it has complied with all obligations required under this SEO objective and in accordance with the Native Title Agreement provisions.***
2. Avoid impacts on high biological value or wilderness value areas	Development impacting high biological or wilderness value areas	Access and pad construction	Conduct a field EIR/EAR/ERC survey to identify areas/zones of high biological value near wellsites, access track and seismic line areas. Review proposed locations and access areas against the Ramsar "triangle".. Review surface drainage issues with respect to catchment area contamination.
			Compliance Statement: An EIR/EAR/ERC (whichever is appropriate based on the SEO) was prepared for each construction activity (lease, roads etc) in accordance with SEO requirements with particular reference to complying with this objective. Copies of the EIR/EAR/ERC were submitted to both

APPENDIX 1: INP COMPLIANCE AGAINST SEO(s) OBJECTIVES

Environmental objective	Possible impact	Identified Main sources of risk	Avoidance, management, mitigation & Compliance Statement
			PIRSA and DEH as part of the activity application ***INP, to its knowledge, and through implementing the EIR requirements, believes that it has complied with all obligations required under this SEO objective.***
3. Minimise disturbance to vegetation and habitat	Physical damage to soils, vegetation and habitat	Access and pad construction; natural limits on rehabilitation	Use of existing access; rolled access and pad development on gibber surfaces wherever possible; steep gibber slopes avoided. **Compliance Statement**: An EIR was prepared for each construction activity (lease, roads etc) in accordance with SEO requirements with particular reference to complying by this objective. In addition, rehabilitation works are yet to be completed to the current inventory of leases, however it is INP's intention to undertake these works with the goal of attaining a GAS1-2 rating. ***INP, to its knowledge, and through implementing the EIR/EAR/ERC requirements, believes that it has complied with all obligations required under this SEO objective.***
4. Avoid disturbance to rare, endangered, vulnerable species	Disturbance to rare, endangered, vulnerable species	Access and pad construction	Review as part of the EIR whether such species are present on proposed access and at wellsite and if so, manage location siting as appropriate. **Compliance Statement**: An EIR/EAR/ERC was prepared for each construction activity (lease, roads etc) in accordance with SEO requirements with particular reference to complying by this objective. Any endangered species were identified as part of the EIR. ***INP, to its knowledge, and through implementing the EIR requirements, believes that it has complied with all obligations required under this SEO objective.***
5. Prevent introduction of pest plants	Establishment of further alien species in the locality	Importation on vehicles	Requirement for contractor/other vehicles to be clean prior to entering district. A very low incremental risk, given other vehicular use, uncleaned, on the Innamincka-Nappamerri road and the station road ("Poddy Track"). **Compliance Statement**: The majority of vehicles trafficking to the area were involved in operations in the area (Cooper Basin) on a full time basis. ***INP, to its knowledge, and through implementing the EIR requirements,***

APPENDIX 1: INP COMPLIANCE AGAINST SEO(s) OBJECTIVES

Environmental objective	Possible impact	Identified Main sources of risk	Avoidance, management, mitigation & Compliance Statement
			believes that it has complied with all obligations required under this SEO objective.
6. Minimise soil impacts 7. Minimise disturbance to gibber surfaces 8. Minimise disruption of watercourse flows	Accelerated soil erosion. Potential start-up of long term irreversible erosion on gibber slopes >2% Alteration in stream flow patterns	Access and pad construction	As part of the EIR, review the geo-morphology of the proposed pad area, and recommend as appropriate on the construction technique and pad location to reduce the need for extensive construction. Site where possible on gently sloping (1-2%) ground. Rolling of most of pad area rather than scraping or cut and fill. No cutting for levelling if possible, fill used where needed for level high use pad areas; fill sourced from sump. Gibber and surface loam held for later re-spreading where scraped surfaces are created (eg for drill sump).
			Compliance Statement: INP complied with these objectives for all activities involving lease preparation, access and road construction, preparation of production locations and in the locating and construction of seismic lines. Specifically with respect to the major activities of drilling and seismic, INP has; **Drilling Activities**: 1. Conducted an EAR/EIR/ERC to choose an appropriate location with recommendations on the construction technique to reduce the need for extensive construction. 2. Located Sites where possible on gently sloping (1-2%) ground. Used rolling of most of the pad area rather than scraping or cut and fill. 3. No cutting for leveling if possible 4. fill used where needed for level high use pad areas 5. fill sourced from sump. 6. Gibber and surface loam held for later re-spreading where scraped surfaces are created (eg for drill sump). **Seismic Activities**: 1. Seismic lines rolled rather than cut; 2. Crossings with existing tracks dog-legged to avoid casual use; 3. weaving of lines through vegetated areas 4. minimized water crossings and construction requirements. Also any crossings reverted back to normal drainage after use. ***INP, to its knowledge, and through implementing the EIR requirements, believes that it has complied with all obligations required under this SEO objective.***

APPENDIX 1: INP COMPLIANCE AGAINST SEO(s) OBJECTIVES

Environmental objective	Possible impact	Identified Main sources of risk	Avoidance, management, mitigation & Compliance Statement
9. Prevent cross-connection between aquifers, and between aquifers and reservoirs	Contamination of higher quality groundwater with lower quality waters (salinity, trace elements). Contamination of groundwater with hydrocarbons.	Inadequate casing or plugging post-drilling.	Casing design and cementing engineered to prevent blowout and for aquifer protection. Surface casing used to isolate shallow aquifers in surficial formations. Production casing run for successful well; hole concrete-plugged and abandoned for failed well. Both surface casing, and production casing if run, externally protected from corrosion by cement. Internal corrosion protection provided by treated drilling mud (surface casing) or other corrosion inhibitor (production casing). Drilling contractor required to test casing integrity and blowout prevention equipment regularly. Procedures and requirements given in INP's Drilling Program. ***<u>Compliance Statement</u>: INP has complied with the requirements under this SEO objective insofar as;*** • ***Setting surface casing depths to provide sufficient integrity to contain expected formation pressures (with industry accepted redundancy);*** • ***Utilised the PIRSA SEO compliance checker to verify no issues of non-compliance with proposed P&A programmes (if well is to be P&A'ed)*** • ***Overlapping production cement rise into surface casing;*** • ***Suspending wells with inhibited brine;*** • ***Conducting and reporting tests on casing and blowout preventer equipment in accordance with the regulations.***
10. Minimise visual impacts	Visual impacts through obtrusive access and pad development and/or visible long-term persistence of pad and access.	Access and pad construction	As part of the EIR for the location, consider the visual impacts that the drilling operation will have. Where possible ensure the pad is flush with land surface, and the cleared/rolled areas have an irregular outline. Rolled surfaces on new access promoting reasonable rehabilitation. ***<u>Compliance Statement</u>: INP has complied with the requirements under this SEO objective.***
11. Minimise public and third party risks	Creation of new public risks: public using rig road; well	Access risks, wellsite risks	Use of signage to prevent access to drilling areas and prepared access tracks by general public

APPENDIX 1: INP COMPLIANCE AGAINST SEO(s) OBJECTIVES

Environmental objective	Possible impact	Identified Main sources of risk	Avoidance, management, mitigation & Compliance Statement
	blowouts; post-drilling.		***Compliance Statement*: INP has complied with the requirements under this SEO objective.**
12. Minimise waste handling and disposal impact	Creation of wastes: sewerage, litter, overflow and spillage	Disposal of wastes while drilling	Sewage disposed locally via short-term septic pits. Wastes on site confined by bins/skips. Disposal eventually to EPA-licensed waste disposal facility at Moomba: minor non-toxic wastes, muds disposed in drill sump. Litter cleanup during and post-drilling.
			***Compliance Statement*: INP has complied with the requirements under this SEO objective. Furthermore, ODE as part of the HSE MS control and manage the waste disposal of materials (excluding drilling muds/waste, sewage and biodegradable pit wastes) at the well site as required.**
13. Minimise adverse impact on livestock	Interference with stock	Disturbance to stock on temporary waters Disturbance to stock on key pastoral dams	Drill site is temporary: activity will be sufficient to deter stock from pad and camp area but unlikely to otherwise affect stock.
			***Compliance Statement*: INP on the whole has complied with the requirements under this SEO objective. Drilling sumps have been fenced and cages are being constructed to isolate off the suspended well cellars.**
14. Avoid spills; rapid cleanup and impact minimisation following spills	Pollution through local oil spills, sump overflows	Vehicle and plant refuelling, drilling operations	Refuel areas HDPE/clay floored and locally bunded (flooring and bunding clay sourced from sump and laid on uncut gibber surface). Sump(s) bunded. Almost level site limits extent to which spills may escape. Extreme flood events unlikely during drilling. In the event of spills on gibber surfaces, spill can be left to self-clean rather than risk disturbance of gibbers. Refuel areas' contaminated soil to be disposed in sump, with drilling muds, at end of drilling.
			***Compliance Statement*: INP has complied with the requirements under this SEO objective.**

APPENDIX 2

Expenditure Report to 29 October 2005

PERMIT YEAR 2

The Expenditure Statement has been removed and is presented as a separate document and remains **Commercial in Confidence**.